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SUBJECT: NIGERIAN CONSULTANT EXPLAINS GON THINKING ON
VIRGIN NIGERIA AIRWAYS

REF: ABUJA 002119

1. (SBU) Begin summary. On December 6, Embassy Economic Officer and Consulate Economic Specialist met in Lagos with Bismarck Rewane, the financial adviser to Nigeria's Federal Ministry of Aviation in attracting investors for a new national air carrier, the planned Virgin Nigeria Airways. Rewane discussed the Ministry's hopes for this airline and the high stock Nigerian officials place in its success, as well as Virgin Nigeria's having become ensnared in the US-UK disagreement over U.S. airlines' landing rights in the United Kingdom. End summary.

2. (SBU) On December 6, Embassy Economic Officer and Consulate Economic Specialist met in Lagos with Bismarck Rewane, the lead financial adviser to the Government of Nigeria (GON) in attracting investors for a new national air carrier, the planned Virgin Nigeria Airways. Rewane discussed the GON's hopes for this airline and the high stock Nigerian officials place in its success. In discussing the GON's determination that Virgin Nigeria Airways succeed, Rewane said the airline's possible failure -- in the context of failing to gain U.S. landing rights -- would be "demoralizing" to President Obasanjo and Nigeria's bureaucrats. Rewane also predicted that the airline's failure would strengthen the hand of "anti-reformers" in Nigeria. In referring to the US-UK "open skies" dispute, Rewane said GON bureaucrats "underestimated" this "particular technicality" in terms of its effect on Virgin Nigeria's quest for U.S. landing rights.

3. (SBU) Rewane expressed his hope the USG would grant Virgin Nigeria U.S. landing rights. He suggested the USG could grant the airline "conditional approval" to operate in the United States and give it six months to demonstrate by "clear indications" it has actual Nigerian management and control. Rewane explained that Virgin Nigeria's business model does not depend entirely on the airline obtaining U.S. landing rights but that doing so would aid the company. In discussing the attributes of Virgin Nigeria, Rewane said the airline would boost economic growth in Nigeria. He also asserted that Virgin Nigeria's success in West Africa would aid the Gulf of Guinea oil sector, strengthen the region's private sector, and increase regional stability.

4. (SBU) Rewane said Virgin Nigeria expects to have an initial public offering (IPO) of its stock in 2007. The consultant noted that with this IPO, the Nigerian public could buy stock in the company, while Virgin Atlantic Airways through its Virgin Group could not increase its 49-percent stake. Rewane added that the plan is for Virgin Nigeria to finish its IPO prior to Nigeria's 2007 elections to avoid becoming entangled in domestic politics.

5. (U) On December 22, Virgin Nigeria published a full-page notice in Nigeria's The Guardian newspaper informing the public that "an information memorandum on Virgin Nigeria will be distributed on a strictly private basis to qualified institutional investors in early January 2005 by Investment Banking and Trust Company Limited, the appointed issuing house. The private placement process will be concluded before the end of February 2005, with Virgin Nigeria majority-owned by Nigerian institutional investors (51 percent) with Virgin Atlantic Limited holding 49 percent. This private placement will only be open to a select number of qualified Nigerian institutional investors.... [Those] who meet the specified eligibility criteria (which have been consented to by the Federal Ministry of Aviation) will have the opportunity purchase a total of 51 percent of the issued share capital of Virgin Nigeria through the private placement. To participate..., interested institutional investors will need to meet the following criteria, amongst others:

-- be Nigerian registered institutions that have been in existence for at least three years before 1 January 2004, with minimum total net financial assets of naira 350 million, and must not hold any material interest in an airline competing with Virgin Nigeria (i.e., any airline

registered in Nigeria by the NCAA as a Nigerian carrier and operating with Nigeria as its home base)."

16. (U) The Guardian announcement confirmed that "at a later point in time, Virgin Nigeria will undertake an initial public offer (IPO) and seek quotation on the Nigerian Stock Exchange. The IPO will be open to the Nigerian investing public to enable interested Nigerian citizens [to] own a stake in the flag carrier."

17. (SBU) Based on his discussions with GON Minister of Aviation Isa Yuguda, Rewane said Yuguda's main priorities are, in descending order: (1) Virgin Nigeria Airways' successful launch and its attainment of U.S. landing rights; (2) the U.S. Federal Aviation Administration's Category I certification of Nigeria's civil-aviation sector; and (3) Nigeria's expansion of its tourism-sector infrastructure, to benefit from and support its airline industry.

18. (U) Begin comment: Bismarck Rewane did not understate the difficulties posed to the launch of Virgin Nigeria by the US-UK "open skies" dispute. Nevertheless, Rewane was hopeful the USG would show understanding for Nigeria's position. Rewane did not suggest any other foreign airline as a possible replacement partner for Virgin Atlantic Airways. End comment.

FUREY